

Message Text

CONFIDENTIAL

PAGE 01 OTTAWA 03459 120244Z

ACTION COME-00

INFO OCT-01 EUR-12 ISO-00 IO-13 AID-05 CIAE-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 STR-07 DODE-00
PA-01 DOTE-00 NSC-05 SS-15 CEA-01 /105 W
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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 8015

INFO AMCONSUL TORONTO VIA POUCH

C O N F I D E N T I A L OTTAWA 03459

E.O. 11652: GDS

TAGS: ETRD, EINV, CA

SUBJECT: REPORTED AGREEMENT ON AUTO INVESTMENT INCENTIVE

REF: OTTAWA 3052

1. SUMMARY. FEDERAL AND ONTARIO GOVERNMENTS HAVE REPORTEDLY REACHED AGREEMENT IN PRINCIPLE ON OFFER OF INVESTMENT INCENTIVE TO FORD. SOME ASPECTS MAY REMAIN TO BE WORKED OUT. PRIME MINISTER TOLD AMBASSADOR RECENTLY OF IMPORTANCE HE ATTACHES TO AUTO INVESTMENT DECISIONS AND INDICATED NO WILLINGNESS TO BACK OFF THE JOINT FEDERAL/ PROVINCIAL INVESTMENT INDUCEMENT PROGRAM, DESPITE POSSIBLE ADVERSE U.S. REACTION. END SUMMARY.

2. AGREEMENT IN PRINCIPLE HAS REPORTEDLY BEEN REACHED BETWEEN PRIME MINISTER TRUDEAU AND ONTARIO PREMIER DAVIS ON INVESTMENT INCENTIVE TO BE OFFERED FORD MOTOR COMPANY TO LOCATE NEW ENGINE PLANT IN ONTARIO. AMOUNT OF INCENTIVE EARLIER REPORTED TO BE IN NEIGHBORHOOD OF DOLS 75 MILLION. AGREEMENT IS NOW BEING CLEARED WITH FEDERAL AND ONTARIO CABINETS. OFFER WILL THEN PRESUMABLY BE MADE TO FORD. FURTHER NEGOTIATIONS ARE POSSIBLE BEFORE PUBLIC
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PAGE 02 OTTAWA 03459 120244Z

ANNOUNCEMENT OF INVESTMENT DECISION IS MADE.

3. IN LAST PUBLIC EXCHANGE BETWEEN OTTAWA AND ONTARIO, OTTAWA HAD OFFERED TO FUND ONE-THIRD OF INVESTMENT INCENTIVE REQUIRED, WHILE ONTARIO HAD OFFERED TO FUND ONE-HALF, INSISTING OTTAWA FUND THE OTHER HALF. THERE IS NO INDICATION AS YET WHAT FORMULA TRUDEAU AND DAVIS MAY HAVE

AGREED UPON. WHILE BOTH LEVELS OF GOVERNMENT HAVE BEEN ANXIOUS TO SECURE THIS INVESTMENT (AND AVOID POLITICAL BLAME SHOULD FORD'S DECISION GO AGAINST CANADA) BOTH AUTHORITIES HAVE SOUGHT TO COME UP WITH A FORMULA THAT WOULD APPLY GENERALLY TO ALL SUCH INVESTMENT DECISIONS SO AS NOT TO BE LEFT IN THE POSITION OF NEGOTIATING EACH NEW INVESTMENT INCENTIVE DECISION COMPLETELY FROM SCRATCH.

4. AMOUNT OF INCENTIVE SOUGHT BY FORD WAS REPORTEDLY DUE ALMOST ENTIRELY TO HIGHER START-UP COSTS IN ONTARIO THAN IN OHIO BECAUSE OF LAND ACQUISITION, HIGHER CONSTRUCTION, TAX AND OTHER COSTS OF ONTARIO PROJECT WHICH WOULD BE ENTIRELY NEW PLANT. ALTERNATIVE INVESTMENT IN OHIO WOULD INVOLVE ONLY EXPANSION OF AN EXISTING PLANT. AMOUNT OF DIRECT INCENTIVES OFFERED BY STATE OF OHIO, IF ANY, REPORTEDLY REPRESENTED ONLY A VERY SMALL PART OF DOLS 75 MILLION COST DIFFERENTIAL.

5. IMPORTANCE FEDERAL GOVERNMENT ATTACHES TO AUTO INVESTMENT DECISION WAS EMPHASIZED DURING CALL JULY 4 ON PRIME MINISTER TRUDEAU BY AMBASSADOR AND SENATOR BAYH. TRUDEAU SAID THAT, WHILE THINGS HAD BEEN GOING "NOT TOO BADLY" WITH THE U.S. CANADIAN AUTO PACT, HIS PRINCIPAL CONCERN WAS WITH PATTERN OF AUTO INVESTMENT OVER NEXT SEVERAL YEARS. HE SAID THAT IF THE REISMAN STUDY (REFTEL) SHOWED THAT MOST OF THIS INVESTMENT AND ALL THE RESEARCH AND DEVELOPMENT IS TO BE DONE IN THE U.S., "THEN WE ARE GOING CONFIDENTIAL

CONFIDENTIAL

PAGE 03 OTTAWA 03459 120244Z

TO HAVE TO DO SOMETHING ABOUT IT", INCLUDING POSSIBLY RENEGOTIATE THE TERMS OF THE AGREEMENT. TRUDEAU ADDED THE STUDY MIGHT WELL SHOW THAT NOTHING FUNDAMENTAL IS WRONG.

6. AMBASSADOR POINTED OUT TO TRUDEAU THAT LARGE-SCALE GRANTS AND INDUCEMENTS TO LURE NEW INVESTMENT WOULD ALMOST INEVITABLY REQUIRE A REACTION FROM THE U.S. TRUDEAU NOTED THAT NOBODY GAINS FROM THIS COMPETITION TO PROVIDE INDUCEMENTS, BUT HE INDICATED NO WILLINGNESS TO BACK OFF FROM THE JOINT FEDERAL/PROVINCIAL INDUCEMENT PROGRAM.

7. COMMENT. THIS IS THE FIRST TIME WE HAVE HEARD A HIGH CANADIAN OFFICIAL SPEAK OF POSSIBLE RENEGOTIATION OF THE PACT AS AN OPTION. TRUDEAU'S REMARKS ABOUT THE PACT SHOULD NOT BE GIVEN UNDUE WEIGHT, AS HE WAS SPEAKING INFORMALLY IN GENERAL TERMS AND WITHOUT A BRIEF. NEVERTHELESS THE MATTER WILL CONTINUE TO BEAR CLOSE WATCHING. ENDERS

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